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CENTRAL INTELLIGENCE AGENCY

ON, D.C. 20505

5-6709

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2 January 1975

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MEMORANDUM FOR:

Intelligence Research Specialist  
Western Europe-NATO  
Defense Intelligence Agency

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SUBJECT : The Turkification of Northern Cyprus

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1. we are sending the attached paper in response to your request for background analysis of the economic situation in northern Cyprus and the impact of Turkish influence on the island.

2. If we can provide you with further information on this matter or assist you in some other way, please call

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Attachment: As stated

Distribution: S-6709

1 - Addressee (LDXed copy)

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THE TURKIFICATION OF NORTHERN CYPRUS

In the three months since the Turkish invasion and occupation of northern Cyprus the Turkish-Cypriot economy has increasingly become an appendage of the mainland. Administratively, the northern sector was first placed under the jurisdiction of Adana and subsequently incorporated into Mersin Province of mainland Turkey. While Greek-Cypriots continue to exercise control over their own destiny, Turkish-Cypriots find themselves superintendents of the mainland's strategies for the island.

Adding to the complexity is the lack of a proper chain of command. Turkish officials on Cyprus along with many Turk-Cypriots who have assumed allegiance to Turkey rather than an independent Cyprus compete regularly with officials in Ankara over the goals and strategies on the island. The Turkish military represents a third force, often beyond control of other officials.

Despite the confusion at the top and the frequent lack of coordination, a great variety of work has been done to rejuvenate the economy. In the first stage, immediately following the cessation of hostilities, ministers along with teams of experts from Ankara surveyed

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the newly won economic resources within the 40% of the island the Turks now hold.

Initial concern was with resettling the mass of refugees as soon as possible, restoring basic services, and preventing permanent damage to the economy. To this end Greek-Cypriots properties have been confiscated and Turkish-Cypriots established in the homes and businesses. Even after much resettlement there still remain many Greek-Cypriot properties to be distributed to new owners.

The northern sector should have few problems in physically absorbing the 30,000 to 40,000 Turkish-Cypriots still in the Greek sector or Sovereign Base Areas along with any Cypriots now resident on the mainland who might wish to resettle on the island. To encourage Turkish nationals of Cypriot decent, Ankara will guarantee pension and social security rights and offer various economic inducements and investment incentives. In spite of this, it is not expected that a major proportion of the 250,000 Cypriots now living in Turkey will return.

In addition to resettlement, the new Turk-Cypriot administration began to tend the citrus crop, irrigate fields, and restore power and water. The banking system

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has been restored and expanded by the addition of branches of the Turkish Agricultural Bank, an investment bank and other financial intermediaries on the island. The Turkish lira has been established as the Turkish sector's currency. This move will further link Cyprus to the mainland and serve to test the convertibility of the lira as part of Ankara's plans for future association with the EC.

The industrial and commercial sectors still remain mostly inoperative. The reorganization of these activities -- the second stage in Ankara's strategy -- will largely be incorporated in the new economic Five-Year Plan for the northern sector. The plan, which will be inaugurated early in 1975, will concentrate on export assets, principally citrus cultivation and copper and iron pyrite deposits and tourism. These industries are already well established and the principal task facing the Turks is the establishment of efficient organizational and marketing mechanisms to exploit their potential.

To exploit these resources Ankara has begun to establish a number of holding companies within which these various enterprises will be centrally organized. A Tourism Management Company has been established jointly by the Tourism Bank, the Pension Fund in Turkey, the Development Foundation (Inkisaj), and the

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Ploris Foundation in Turkish Cyprus. The company will provide training at centers in Adana and Antalya on the mainland, high level direction and will also gather financing for the tourist sector. Foreign tourist companies that have not registered with the Autonomous Turkish Administration (ATA) by January 1975 face confiscation of their properties.

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Turkish managers and technical experts fill the gap and may permanently become part of the landscape.

The biggest problem facing Turk-Cypriots and their Turkish patrons is that of financing. The position of the ATA with regard to foreign investment is certainly no worse than what exists in many other parts of the world. Foreign investors will undoubtedly be cautious, however, and this will delay the rapid inflow of funds needed to initiate and sustain these various development projects.

Much of the new development activity will be in supporting rather than producing areas of the economy. This type of investment is service oriented and is less profitable. Therefore it is less likely to interest foreign investors. Much of the needed investment will be of the social overhead type, such as in roads and port facilities, and must be provided by government.

It is likely that Ankara will not find many investors, especially large firms, interested in Cyprus at this time. It therefore must itself assume the responsibility of carrying most of the investment. To accomplish this, Ankara has set up several investors' cooperatives and issued bonds to tap private savings, pension plans and other sources. It must still pour

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huge amounts of state funds into the Cyprus projects. Turkey has already spent an estimated \$1.2 billion on the invasion and its aftermath and has its own ambitious plans for development of the mainland economy.

While large-scale foreign investment and foreign loans to Turkey may release some Turkish funds for Cyprus, it is unlikely that these will be sufficient. To this end it seems to Ankara more economically sound to merge the Cypriot economy with the mainland and face one development problem instead of two. The alternative would be to cast Cyprus adrift or let it stagnate for lack of funds. Whatever the strategy Ankara adopts, Cyprus is likely to remain unable to pay for itself for some time and will continue to act as a drain on the mainland economy.

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